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FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC PRIORITY 7222
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 6087
RUEHLM/AMEMBASSY COLOMBO PRIORITY 6395
RUEHKA/AMEMBASSY DHAKA PRIORITY 1644
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 4417
RUEHLO/AMEMBASSY LONDON PRIORITY 5678
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 1911
RUEHCI/AMCONSUL KOLKATA PRIORITY 3807
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
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STATE FOR EEB/TPP/ABT GARY A. CLEMENTS, COMMERCE/ITA/OTEXA
MARIA D'ANDREA, USTR CAROYL MILLER

E.O. 12958: N/A

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SUBJECT: NEPAL: TEXTILES AND APPAREL PRODUCTION

REF: SECSTATE 114799

Data Requested

¶1. In response to EEB's request, Post gathered the following 2007 data on textiles and apparel production in Nepal. Note that Nepal's fiscal year runs from July 16 to July 15 so the date is given as FY 05/06 and FY 06/07.

- Total industrial production: FY 05/06 USD 2.39 billion and FY 06/07 USD 2.61 billion.
- Total textile and apparel production: not available.
- Textile and apparel share of Nepal's imports: FY 05/06 4.8 percent and FY 06/07 2.6 percent.
- Textile and apparel share of Nepal's exports: FY 05/06 15.8 percent and FY 06/07 14.8 percent.
- Exports in textile and apparel to the U.S.: 2005 USD 50.72 million, 2006 USD 47.78 million, and through July 2007 USD 17.9 million.
- Total number of people employed in manufacturing: 223,102 as of July 15.
- Total number of people employed in textile and apparel industry: 6,000 (or 12 percent of total industrial employment).

Requested Analysis

¶2. Nepal's manufacturing industry continues to be plagued by falling prices and profit margins due to both heightened international competition and the depreciation of the U.S. dollar against the Indian rupee to which the Nepali rupee is tied.

¶3. Manufacturers who have been able to weather the downturn, report a slight increase in demand over last year. However, due to political unrest, the depreciation of the U.S. dollar and diminishing profit margins most manufacturers are unwilling to increase supply.

¶4. Currently, there is only one foreign investor in Nepal: an Indian company manufacturing cotton shirts for the Indian market. However, there are a growing number of Nepali

investors who are shifting their production base from Nepal to India in response to increasing labor unrest. Workers and labor unions are demanding unsustainable salary increases and permanent employment for seasonal workers. Frequent demonstrations, protest and work disturbances have forced a number of manufacturers to close.

¶5. The U.S. and European Union's restrictions on certain exports of textiles and apparel from China have only resulted in a slight increase in demand for Nepali textiles. The Government of Nepal (GON) has not introduced any measures to reduce the growth of Chinese textile and apparel imports because the Nepalese textile industry is largely export based and manufacturers do not cater to the domestic market.

¶6. The GON does not have any policy or programs to assist workers dislocated due to increased global competition. Faced with growing labor demands and increased global competition, many Nepalese manufacturers have been forced to close down. Some manufacturers are remaining in operation at only break-even levels in order to maintain their relationships with international buyers. Some are seeking flexibility from the government to reduce wages and, in some cases, their work force.

¶7. To date the GON has not taken any concrete steps to protect its textile and apparel industry. Nepal is not a member of any preference program.

¶8. Given the current security situation, Post does not believe that Nepal's textile and apparel industry can compete in the global market. In the future, Nepalese producers may be able to find niche high-end markets, such as artisan

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quality rugs. However, the current labor conditions, constant work disruptions and political instability will probably preclude the creation of a broader manufacturing base in textiles and apparel.
POWELL